

FINANCE DIRECTOR/TREASURER'S OFFICE

Fiscal Year 2005

As Finance Director/Treasurer, I am responsible for the coordination of all financial activities of the Town, managing and coordinating the activities of the Finance Department (Accounting, Assessing, Collections, Treasury), development of operating and capital budgets and appropriate budgetary controls, the disbursement, investment, and management of all funds belonging to the Town, and for effective financial planning and management of debt and debt policies.

I want to thank staff and the citizens of Amherst for their warm welcome to me as I began my tenure in September 2004. A number of Finance Department staff also assumed new roles in FY 05, and they and the other staff rose to the occasion with outstanding support internally to other Town departments and courteous and professional assistance to taxpayers and the general public. I also want to thank retired Director of Administration and Finance Nancy Maglione and Treasurer/Collector Norma Lynch for their assistance in this transition.

Interest rates increased in FY 05 from FY 04's 40-year lows, ranging from an average of 1.20% in July 2004 to 3.06% in June 2005. Certificate of Deposit rates varied from 1.90% early in the year to 3.45% by May 2005. Municipalities are not allowed to invest funds for a period greater than one year. A total of \$425,971 was earned from investment interest, stock and mutual funds in FY 05, an increase of \$48,363 from the prior fiscal year. The General Fund received \$222,019, the Enterprise Funds received \$91,083, the Community Preservation Fund received \$4,784, the Stabilization Fund received \$87,774, the Health Insurance Fund received \$3,503, the Worker's Compensation Fund received \$6,668 and the Trust Funds received \$10,140.

There were two borrowings during FY 05. On October 8, 2004, the remaining portion of the temporary debt on the Crocker Farm School project, in the amount of \$5,505,000, was renewed to July 8, 2005. The Town received a favorable net interest rate of 1.7787% via competitive sale. Under the act which created the Massachusetts School Building Authority (Chapter 208 of the Acts of 2004), projects that are substantially complete, like the Crocker Farm project, will receive lump-sum funding of the Commonwealth's share of project costs. The Commonwealth's share is approximately 67% of allowed project costs, including interest on temporary financing. The Town received 75% (\$3,821,957) of the Commonwealth's estimated share before the notes matured on July 8, 2005. The Town expects to receive the remainder of the Commonwealth's share following completion of a project audit. The total bond authorization for this project was \$8,508,603. The Town issued \$3,000,000 general obligation bonds to permanently finance a portion of this authorization on October 1, 2003.

On March 15, 2005, the Town issued \$1,690,000 General Obligation Refunding Bonds for the purpose of refunding (refinancing) a portion of the Town's \$3,223,000 General Obligation Bonds, originally issued October 1, 1996 for renovations to Town Hall. In addition, this bond issue included the issuance of \$600,000 in G.O. Bonds for ten years for Town Center Improvements (sidewalks) authorized by Town Meeting in the spring and fall of 2004. Bonds were sold via competitive sale at a true interest rate of 3.4735502%. The Town realized a net present value savings of \$101,904, or just over 6%, by refunding (refinancing) the Town Hall bonds at today's lower interest rates. Savings will be spread over the remaining eleven years of debt service, including a savings of \$10,926 in FY 06 that was reallocated within the Town's capital plan.

Moody's Investors Service affirmed the Town's healthy bond rating of Aa3 in conjunction with this bond issue, but expressed deep concerns about dwindling reserve levels that could negatively affect the Town's bond rating in the future. A lower bond rating would increase the cost of borrowing for the Town. On February 28, the Town Manager, our fiscal advisor from UniBank, and I traveled to New York City and made a detailed presentation to senior analysts at Moody's, summarizing financial results from 2002 to the present and projections for the next two years. I believe that the meeting helped to avert a bond-rating downgrade at this time.

The Treasurer's Office manages the tax titles for the Town. When a taxpayer becomes delinquent in paying real estate taxes or other local charges that constitute liens on real estate, the Town has statutory authority to take title to the taxpayer's property and, subsequently, to undertake proceedings to foreclose on the property by petition to the land court. The property owner can redeem the property by paying the unpaid taxes, with interest and other charges. Twenty-four new properties were placed in tax title accounts during FY 05, totaling \$45,725. There were 25 properties removed from tax title accounts during the year. Payments totaled \$187,572. Additional interest collected totaled \$71,657. As of June 30, 2005, there were 53 parcels with a balance of \$284,051 outstanding. This compares favorably to the June 30, 2004 balance of \$403,732.

During FY 05, there were five taxpayers who took advantage of Clause 41A, which allows income-eligible elderly to defer payment of their real estate taxes. As of June 30, 2005, there were four properties with deferred taxes amounting to \$89,412. The interest rate on deferred tax is 8% until the property is sold or the eligible taxpayer is deceased. The interest rate then increases to 16% until payment is received. One property was redeemed during FY 05, totaling \$25,262. The additional interest paid was \$10,689.

FY 06 budget development was dominated by two issues: spiraling health care costs (a local and national crisis); and dialogue regarding the Town's multi-year financial planning strategy and the need/challenge over the next 2-3 years to eliminate the remaining structural deficit, from a high of \$3.4 million in reserves used in FY 04, to \$1.7 million to balance the approved FY 06 budget, to zero by FY 08 or FY 09, and to replenishment of reserves for the inevitable next economic downturn. The Town has administered group health insurance benefits jointly with the Amherst Pelham Regional School District and the Town of Pelham on a self-insured basis since the 1980's and maintains a Health Claims Trust Fund. The towns and Region and its employees had until recently enjoyed low annual increases in claims and contribution amounts relative to market. Beginning approximately in the fall of 2003, claims activity outpaced contributions to the Trust Fund by a substantial margin. The Trust Fund balance declined from \$1.7 million on June 30, 2003 to \$422,668 on June 30, 2004. On my recommendation shortly after being appointed in the fall of 2004, the Town engaged a consultant to assist in the evaluation, assessment, design, and planning of its group health insurance benefits, including an evaluation of the advantages and disadvantages of our current self-insured health plans and creation of a three-year health insurance program/strategy. In May 2005, the consultant presented a final report with eleven specific recommendations. They included a 36% increase in premiums to satisfactorily fund the Trust in FY 06; the introduction of substantially more cost-effective health care plan design alternatives, such as state-of-the-art managed care plans; the purchase of reinsurance (stop-loss coverage for high individual claims); a strategy to replenish over the next three years an appropriate reserve to be held in the Trust Account; and improved employee education. All recommendations had as a primary objective to control and contain future increases; a number of these require collective bargaining with affected employees, which was

ongoing at fiscal year's end. In the spring of 2005, prior to the implementation of the recommended 36% premium increase and proposed plan changes for FY 06, the Trust Fund continued to perform poorly and ended FY 05 with a negative balance of \$705,442.

The Town faces a number of budget and policy choices/challenges in the years ahead. Double-digit annual growth in employee health insurance costs, state-aid increases likely to be much more modest than those received by the Town in the 1990's, and caps on local revenue threaten the ability of the Town to sustain both the operating and capital budgets. While striving to adequately fund Town, school, and library services, the Town must eliminate its reliance on dwindling reserves to balance the budget. The Five-Year Capital Plan identifies several major projects on the horizon. So next year will be tougher than FY 06, as FY 06 was tougher than FY 05. Tougher, but not drastic or undoable if we all work together.

Submitted by

John P. Musante
Finance Director/Treasurer